# Report from Bonn by Rainer Apel

## Industrial development on agenda

*Questions of trans-European economic development divide followers of Adam Smith and those of Friedrich List.*

'We need an entirely different industry strategy, to be able to provide new jobs for millions of people in the German Democratic Republic and in Eastern Europe," said a West German representative at the 27th International Wehrkunde Conference of senior Western strategic analysts in Munich on Feb. 3. The German called for a multibillion-deutschemark investment program to reconstruct countries like Poland, Hungary, Czechoslovakia and East Germany.

Experts of the government and of the private industry think, indeed, that DM500 billion invested for the reconstruction of the East German economy alone is "not an exotic figure." One may easily add thrice that sum, to guess what is required for Eastern Europe as a whole.

At another high-powered gathering of international experts of politics and economics, the World Economic Forum in Davos, Switzerland, similar tones could be heard. West German Economics Minister Helmut Haussmann called for a strategy to combine the potentials of prosperous Western Europe with ailing Eastern Europe, making the continent a powerful economic entity of 500 million people.

Haussmann added that a reunified Germany, with its 75 million people necessarily being at the center of this economic entity, would be a partner, rather than an adversary of Japan in economic competition. This paid tribute to the fact that Japanese investors have been putting money into European industry stocks, and especially West German markets, over the past few months. But this is not a speculative drive of the kind practiced at the huge monetary markets of Wall Street or the City of London, with the prospect of "easy" profit at high interest rates. It is a return to traditional forms of sound investment at relatively low interest rates in industry, construction of roads and railroads, bridges, homes, and the energy system.

Leaks about an impending collapse of the speculative junk bonds bubble on Wall Street and other monetary markets on the one side, and hints that a long-term investment boom secured by government guarantees and by what is widely perceived as the "West German economic success story" on the other side, have contributed to an outflow of about $24 billion from the U.S. to West Germany in the last quarter of 1989—mostly after the opening of the inner-German border on Nov. 9. Extrapolating that rate, one arrives at an estimated input of $100 billion by the end of 1990.

There is no doubt that, even if there has not yet been a major shift of British money into West Germany, there will be one now, because of the recent change in British corporate accounting rules, which will redirect $30 billion per year in British funds that have been going into junk bonds and leveraged buyouts.

This represents a threat to the monetarist cabal at the City of London. The fierce old conflict between the two modern schools of economic policy in the West—the ground-rent cabal of Adam Smith on the one side and the American-Continental European current of Friedrich List of the early 19th century on the other side, has broken into the open again.

The modern-day heirs of Adam Smith pinpointed the revived controversy in an editorial in the London daily, the *Independent* of Feb. 7. Under the headline "Vision of a new German Zollverein" (Customs Union), one could read: "Indeed, after quite a short period, the two Germanys will develop a wholly integrated economy—and when that happens political unity becomes almost an irrelevance."

There was good reason for those whom the *Independent* spoke for, to be alarmed. The day before, West Germany's Chancellor Kohl announced that he will present a proposal to East Germany's Minister President Modrow at their meeting in Bonn on Feb. 14 for a rapid implementation of an "all-German economic and monetary union."

Kohl and Modrow, both attending the above-mentioned World Economic Forum conference, had held a private meeting there on Feb. 3. Not much was made known about the actual agenda of this meeting, but the news alone made certain people in London and New York, also in Moscow, highly nervous. On Feb. 7, Britain's Prime Minister Margaret Thatcher declared that a "longer period" would have to pass, before Germany could reunify. U.S. Secretary of State James Baker, on his way to Prague and from there to Moscow, had his senior officials tell the press Feb. 6 that he, too, prefers a "slowing down of the entire process of German reunification."

Reality in the East, the rapid decomposition of the political and economic structures, requires rapid action, however. Any attempt to slow down processes in Europe (East and West) in this volatile situation, would only increase the problems.